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R 222101Z MAY 09
FM SECSTATE WASHDC
TO RUEHGB/AMEMBASSY BAGHDAD 6210
INFO IRAQ COLLECTIVE

UNCLAS STATE 053005

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [BEXP](#) [BTIO](#) [ECIN](#) [ECON](#) [EFIN](#) [EIND](#) [ENRG](#) [IZ](#)

SUBJECT: GE DISCUSSES PAYMENT FOR IRAQ CONTRACT AND SEEKS
PARTNERS

REF: STATE 134890

¶1. (SBU) Summary: Senior GE officials met with NEA DAS Richard Schmierer May 20 to signal their concern regarding payment for the \$2.7 billion contract with the Iraqi Ministry of Electricity (MOE). GE would like to move away from ad hoc payment solutions for each installment, as has so far been the case, to a more predictable process. GE also mentioned the need for the Iraqis to hire an owner's engineer with sufficient technical ability to successfully implement the contract. GE is also interested in forging partnerships with other firms, and requests USG support in identifying appropriate counterparts. In addition, GE is exploring opportunities in Iraq's rail transportation network. DAS Schmierer discussed various financing mechanisms and the viability of these options. He also agreed to support GE's search for appropriate partners, and to connect GE to USG sector experts working on rail issues in Iraq. End Summary.

¶2. (SBU) Three executives represented GE: Nabil Habayeb, CEO for the Middle East and North Africa, Timothy Richards, Managing Director for International Energy Policy, and George Pickart, Gas Turbine Government Relations Manager. Their main concern was securing a predictable payment procedure for the GE contract with the Iraqi MOE to deliver 56 electricity generating gas turbines. In March and May, GE received payments of 293 million Euros, but each payment has been a challenge. With increasing pressure from lower budget revenue, GE wants to put in place mechanisms that will guarantee these payments down the road. One suggestion that GE raised was EXIM financing.

¶3. (SBU) Though EXIM is currently closed in Iraq, a clause still permits EXIM to offer services in Iraq if the financing is sufficiently collateralized, e.g. through attachment to future oil receipts. However, NEA explained the USG policy that no USG entity (such as EXIM) provide financing to a country for one year after the conclusion of debt cancellation; since the last tranche of Paris Club debt relief took place December 23, 2008, this would preclude EXIM financing until December 22, 2009.

¶4. (SBU) NEA informed GE of the recent decision by the Council of Ministers to approve \$3 billion worth of bonds, with \$2.4 billion destined for the electricity sector and \$600 million for water and railway projects, noting that the Council of Representatives must still approve the issuance.

¶5. (SBU) In addition to the financing issue, GE also is concerned about the successful implementation of the contract. In GE's view, this requires the selection of a qualified owner's engineer to oversee the engineering-procurement-construction (EPC) firms that will be prime contractors for installation of the generating units. For a previous and much smaller purchase of GE generating units, the GOI selected an owner's engineer that was the low bidder but lacked experience in this type of generation project. GE might itself serve as the owner's engineer for the installation of the new purchases even though this is a role that it ordinarily does not wish to play.

¶6. (SBU) GE was also very keen on any USG support in identifying appropriate partners to further explore the Iraqi market. They presented this as a means to improve local

capacity while simultaneously improving their market position. These partners would not only be in the energy sectors, but also in water, healthcare, aviation, rail, etc. Partnerships could take the form of joint ventures or jointly bidding on tenders. GE is not looking for agents or sales representatives, but rather firms with which they can do some initial work to develop a relationship and see if it is a good match. The idea is that GE would bring skills and technology to the table, while counterparts would bring on-the-ground resources and knowledge. Within this context, GE plans to open three offices in Iraq: in Baghdad, Basrah, and Erbil. DAS Schmierer suggested that subject matter experts in Embassy Baghdad and Provincial Reconstruction Teams could serve as important conduits to identifying such potential partners.

17. (SBU) GE mentioned future interest in both providing technology that will capture the natural gas presently being flared through oil extraction, as well as equipment for a resurgent Iraqi rail industry. NEA reiterated that the USG has been advocating that Iraq tap into natural gas resources, particularly in light of the worsening in Iraq,s fiscal position. NEA also committed to putting GE in touch with the members of the Transportation Attach,s team in Embassy Baghdad who work on Iraq,s rail network.

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